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ABSTRACT

A major weakness in the funding base for skill development in Australia arises from a declining investment in training by key stakeholders--employers. Australia is spending less on training and creating fewer high skill jobs than comparable countries and forcing individuals to take greater financial responsibility for their own development. Forces driving the trends are the changing structures of jobs and growth of so-called nonstandard forms of employment that are closely associated with declining levels of employer involvement in training. Public policy has addressed the problem in various ways. The last major initiative directed at increasing employer expenditure on skill formation was the Training Guarantee Levy in the early 1990s. It succeeded in stimulating employer expenditure, resulted in more genuine training, and encouraged managers to take training and skills development more seriously. Its major failings arose from a fixation with supply-side issues, preoccupation with training inputs, and enterprise orientation. To increase employer commitment and national productivity, Australia should institute a skills levy or similar mandatory system of employer contribution to training supplemented by individual learning accounts. Training should be coordinated by collaborative institutions comprising employers, training providers, brokers (public and private) and employee representatives. The institutions would be responsible for developing skills eco-systems on both a regional and industry basis. (Includes 49 references and a 5-page overview.) (YLB)

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"you value what you pay for"

ENHANCING EMPLOYERS' CONTRIBUTIONS TO SKILL FORMATION AND USE

a discussion paper for the Dusseldorp Skills Forum

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June 2002

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OVERVIEW

AUSTRALIAN EMPLOYERS RISK DROPPING THE BALL

This Discussion Paper, prepared by the Australian Centre for Industrial Relations Research and Training (ACIRRT) for the Dusseldorp Skills Forum, is intended to stimulate public discussion and debate about the contribution of stakeholders to the development of a highly skilled and innovative labour force and economy in Australia. It focuses in particular on the role of a major group of stakeholders: Australian employers.

It concludes that there is a major weakness in the funding base for skill development arising from a declining investment in the training effort by a key stakeholder group, Australian employers.

The evidence is substantial:

- Australia is spending less on education and knowledge than comparable countries
- Employers are reducing their stake in and financial commitment to training with the rise of non-standard forms of employment such as casual work
- Individuals are being forced to take greater responsibility for their own development.

If not addressed, the situation has major implications for the national interest: current productivity growth levels are unsustainable and ongoing growth requires increasing the skill levels of the workforce. According to OECD data Australian employers have been amongst the worst in the world in creating high skilled white collar jobs.

KEY ISSUES

The paper examines the current state of the training agenda, analyses these trends and then considers a range of policy responses.

1. Current Trends

The authors outline a range of concerns with the current VET regime:

- there is little evidence of a strong training culture within Australian workplaces
- the New Apprenticeship system's focus on workplace-based training has led to a decline of the traditional four-year apprenticeships
- employer funded training has declined in Australia since the mid-90s, both in terms of hours spent in training and dollars spent.
- this has led to a shift of the training burden from government and employers to individuals.

Australia *Is Lagging Behind:* Australia lags behind comparative nations on a range of OECD indicators of successful development of a Knowledge Economy during the 1990s:

- Australia ranked 16th out of 21 nations in terms of annual average growth in high-skilled jobs.
- Australia's low-skilled base is growing faster than any OECD country except Ireland and Austria.
- Australia's investment in knowledge as a proportion of GDP is deteriorating, while most OECD nations are increasing.
- Australia's funding for education as a proportion of GDP is also falling. In 1997 it ranked 25th out of 29 OECD nations in terms of direct public expenditure on education.

Employers *are Spending Less:* The shift in the Australian labour market from permanent full-time work to tenuous employment has undermined the training drive:

- expenditure per employee is trending down from $191.25 in 1993 to $185.49 in 1996.
- average hours spent on training has fallen from 5.7 hours per employee in 1990 to 4.9 hours in 1996.
- more employers are spending less than 2.5 per cent of their payroll on training now than a decade ago. A staggering 31 per cent of employers are not sure what their financial commitment to training is.
- the vast bulk of training is unstructured, ad hoc, 'on-the-job' – 71.6 per cent of all training in 1997.
- tertiary-educated, high-skilled workers are more likely to receive training than low-skilled workers
- employees in non-standard employment are less likely to receive training – only 50.5 per cent of casuals receive training.

The Rise of **D-I-Y Training**: The decline in government and employer support has placed an increasing onus on workers managing their own training.

- participation in post-compulsory education increased by 28 per cent between 1989 and 1999 to its highest ever level.
- 90 per cent of wage earners aged between 20 and 24 participate in some form of training
- however the participation rate of mature workers (aged between 45 and 54) in VET and higher education has risen rapidly, due to retrenchments and restructuring.
- unemployed or people marginally attached to the labour market are going to greater lengths than ever before to improve their vocational and employability skills.

2. Analysis of the Trends

- Restructuring has spawned the spread of precarious employment, with nearly half the workforce now employed on a 'non-standard' basis. This trend is increasing across the economy.
- This shift has fundamentally changed the priorities of employers, with lower levels of training for casuals – and where training exists, it is overwhelmingly induction training.
- The growth in non-standard work has accentuated the trend of shifting costs of training from employers to individual workers.
- Policy makers need to move beyond the 'individual' and 'enterprise' and look instead to 'skill eco-system' – clusters of competencies relevant to a specific industry or region shaped by interlocking networks of firms, markets and institutions.
- Development and management of such eco-systems becomes the key challenge for policy makers.

3. Policy Responses

The authors canvass the merits of national and international training initiatives.

The Training Guarantee Levy (TGL) – The TGL was introduced in 1990 by the Hawke Government, requiring all employers with a payroll over $200,000 to spend one per cent of payroll on 'employment-related' training, increasing to 1.5 per cent after July 1992. Where employers did not spend this amount, the money went into a central fund to cover the administration of the program. Small business and charitable institutions were exempted. The scheme was suspended in 1994, prior to the release of an official evaluation, and abandoned in 1996.

While the accepted wisdom is that the scheme was unpopular with employers, susceptible to rorting and largely ineffectual, there is evidence of some success, based on the official evaluation:

- 57 per cent of employers reported their training expenditure increased under the program.
- average training expenditure in the private sector increased by 55 per cent
- the TGL sheltered training expenditure from the impact of recession.
- 47 per cent of employers reported the TGL had increased the status of training.

- employer opposition to the program decreased during the life of the program and the most common complaint was the administrative burden.

Despite these benefits, the TGL failed to live up to its promise because:

- employers 'hit the wall', running out of training ideas for structured training
- smaller employers in particular had limited ideas as to identifying training needs
- some employers feared increased poaching of staff who had developed further skills as a result of an investment in training
- employers were not prepared to back training by re-engineering jobs to deploy new skills.

INTERNATIONAL EXAMPLES

The report canvasses a number of international examples where governments and employers have worked together to improve the skill formation capacity of enterprises. Tax rebates and statutory contribution schemes exist in a number of countries in Asia including the Philippines, Taiwan and Singapore. Outstanding examples from Europe include:

- **France**
  1.5 per cent levy to all firms with more than 10 workers; employers can claim against the fund for accredited training programs; individual; workers can also access the fund to take training leave. The funds are administered by employer-union organizations on both regional and industrial lines.
- **Spain**
  The French model extended to allow for employee contributions as well for extra personal training leave.
- **United Kingdom**
  Individual Learning Accounts introduced in 1998. Government supplements individual contributions. Although this program has recently been suspended due to allegations of abuse, it has demonstrated a huge unmet appetite for lifelong learning.
- **Sweden**
  Individual learning accounts where workers pay training money and can claim back as tax deduction. Employers can also pay in and claim 10 per cent as deduction from payroll tax.
- **Denmark**
  Government and employers jointly fund a scheme to cover wage and travel costs of workers undergoing training. Recently extended to allow individual employee contribution. Supplemented by programs of parental leave and sabbaticals, where state pays grant equal to unemployment benefits.

CONCLUSION

Australia's training regime needs to be reformed to increase employer commitment and national productivity.

We must do better than simply reviving the Training Guarantee Levy, but the successes and failures of this program should inform future choices.

A skills levy, or similar mandatory system of employer contribution to training, would contribute to a new 'high skills dynamic' based on the simple free market idea 'you value what you pay for'. France and Denmark have developed successful training systems based in part on industry levies.

The levy should be supplemented by a system of individual learning accounts.

Training should be coordinated by collaborative institutions comprising employers, training providers, brokers (public and private) and employee representatives.

These institutions would be responsible for developing skills eco-systems on both a regional and industry basis.

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EXECUTIVE SUMMARY

It is generally agreed that the level of funding for education and training in Australia is below that prevailing in comparable and competitor nations. This paper does not examine all the issues associated with training funding. Instead it focuses largely on just one: employers' contribution. The findings on this subject have been unambiguous:

- According to OECD data Australian employers have been amongst the worst in the world in creating high skilled white collar jobs.
- While there are some differences between industries, employers' contribution to training and education funding has been falling.
- The training provided to non-standard workers is limited at best and at worst non-existent.

This last finding is very significant because most net employment growth in recent times has been non-standard in nature.

Employer behaviour should not be understood as resulting from personal deficiencies or inadequacies. Underfunding by employers is best understood through the notion of skill eco-systems. These are defined as clusters of high, intermediate or low-level competencies in a particular region or industry shaped by inter-locking networks of firms, markets and institutions. The approach to training that prevails is the outcome of a particular configuration of social and especially economic forces – what could be described as a training regime. Given this the challenge is not just to raise the levels of funding provided by employers for training. The challenge is to change the regime that underpins current arrangements.

Insights concerning the best ways to improve employer behaviour have been identified by reflecting on the experience of the Training Guarantee Levy (TGL) that operated in Australia in the early 1990s. Initiatives of a similar nature that have operated elsewhere have also been considered. The experience of the Training Guarantee revealed that it did succeed in stimulating employer expenditure, it did result in more genuine training and it did encourage managers to take training and skills development more seriously. The major failings of the levy arose from:

- a fixation with the supply-side issues;
- a preoccupation with training inputs; and
- an enterprise orientation.

Any new national approach to employer funding for education and training should promote collaborative arrangements between employers, unions, training providers and workers within regionally and industrially defined labour markets. This is the means by which policy can help stimulate and cultivate the development of high skill eco-systems.

This analysis points to the need to consider a coherent set of skills policy initiatives that includes:

- Active government support for regionally-based labour market institutions with strong employer representation that encourage a strategic approach to skill needs, training and skill utilisation;

- A skills levy, or similar compulsory scheme for mandating a certain level of training expenditure, that compels employers to contribute to skills development in their industry.

However, simply stimulating training expenditure will not, of itself, ensure that Australia moves to a high skill future. This report identifies the deployment and appropriate utilisation of skill in Australian workplaces as a critical issue.

How can Australian employers be encouraged to get the most out of their employees once trained? How can the rhetoric of 'working smarter not harder' be translated into reality without compromising employers' legitimate right to manage? Put simply, employers need to come to value the skills their employees have and are developing. The experience of the Training Guarantee Levy and the experience of other industrial economies emphasises that employers, like all rational market actors, value what they pay for – where employers invest heavily in the skills of their workers they have strong incentives to ensure the productive deployment of those skilled employees. The encouragement of this high investment – high skill – high productivity cycle is the central policy imperative now confronting Australian skills policy makers.

Any increase in the costs on business, such as that required to achieve improved levels of training and skill development will face some opposition from some employers. It is often argued that any increase in business costs will harm Australia's attractiveness to foreign investment capital. However, it must be remembered that increasing Australia's high skill profile is an imperative for competitiveness in the new world economic order which will be increasingly dominated by knowledge intensive industries. Rather than damaging Australia's reputation in the eyes of foreign investment capital, enhancing employers' contribution to skill formation would significantly improve Australia's attractiveness as a site for international investment because of its commitment to a high skill, innovative and adaptable workforce.

INTRODUCTION:

RETHINKING AUSTRALIAN TRAINING FUNDING

Australian training funding policy is at a crossroads. While there are currently more people in vocational education and training (VET) than ever before, and while the flexibility and accessibility of the VET system is generally seen to be at an all time high, there are a number of serious concerns with the current system:

- There is little evidence of a strong training culture within Australian workplaces,
- The proliferation of traineeships in new industries and occupational areas and New Apprenticeships with a very strong workplace-based training emphasis has led to concerns associated with the quality of training, and a decline in traditional four year apprenticeships;
- Employer funded training has declined in Australia since the mid 1990s, both in terms of hours per employee devoted to structured training and in terms of dollars spent per employee;
- The burden of supporting and funding training has increasingly been shifted from employers and government onto individuals.

Given the current state of training funding it is clearly an opportune time to seriously reconsider the nature of the present predicament and the policy options that are available to ensure a more appropriate basis for funding training. This paper is especially concerned with the role employers play in funding skill formation and using skills once they are developed. In particular, we are concerned with what role they currently play in funding skill formation and how this role could be improved.

In recent times the role of employers in funding skill formation has been a relatively neglected matter in Australian scholarly and policy debates. These have been preoccupied with issues such as how to make the allocation of public training money more demand (i.e. employer) driven or how best to shift the financial costs of training to learners (e.g. fees versus vouchers versus HECS). Our focus on employers is not primarily motivated by a concern with them as a possible additional source of revenue – important as this issue is. Our concern is more structural: employers occupy a central place in systems of production and distribution. No successful change in skill development and use can be achieved without consideration being given to how to improve their current practices and arrangements.

In this context it is important to note the key role employers play in nurturing productivity growth and distributing the gains arising from it. Over the course of the 1990s, productivity in Australia improved dramatically. A summary of key developments is provided in Table 1 on page 4. As is clear from the table, improvements in labour productivity have made a major contribution to the overall productivity outcome. It is also clear that developments in the public sector have been particularly important.

Table 1: Average Productivity Growth, Australia, 1968/69 – 1998/99

	Labour	Capital	Multi-factor	Private Sector GDP per hour worked	Public Sector* GDP per hour worked
1968-69 –1978-79	2.9	-0.9	1.5	1.9	3.5
1978-79 –1988-89	1.4	-1.5	0.3	0.9	4.2
1988-89 –1998-99	2.5	-0.9	1.1	1.8	9.7

Source: Joint [Coalition] Governments' Submission, *Safety Net Review – Wages, November 1999 – March 2000*, Commonwealth Department of Employment, Workplace Relations and Small Business, Canberra, 2000 p 52. It should be noted the submission argues productivity growth in some private sector industries (e.g. mining and manufacturing) has been stronger than the all private sector average and that these have also been the industries where enterprise bargaining is most developed. Unfortunately this submission provides no evidence to show which way causality runs. It is highly likely bargaining is most developed in these industries because there is something available for bargaining. * Note that this is market sector only.

Recent research has now established that much of the improvement in labour productivity has come from the more intensive use of existing labour resources rather than any major upgrading of labour's capacity to perform at a higher level of skill.[1]

There are finite limits to how much more labour productivity can be improved through greater intensification of the use of existing labour. Further improvements will require upgrading physical and, ideally, human capital.[2] Arguably the key challenge for skill formation policy is to ensure that future improvements in labour productivity arise from a greater use being made of higher order skills. How can we augment our current system of funding training to address this issue? This is the primary question examined in this paper.

The paper answers this question systematically in the following chapters. The next section (2) provides an account of current trends in funding training in Australia. It notes our poor performance compared to most other developed nations in this regard. It also explores how training is currently provided based on large scale statistical studies of employers and workers training practices and expenditures. Section 3 then provides a brief account of the forces driving these developments. It highlights the importance of understanding the changing structures of jobs. The growth of so-called non-standard forms of employment has been closely associated with declining levels of employer involvement in training. Section 4 considers how public policy could address this problem. This begins with an examination of the last major initiative directed at increasing employer expenditure on skill formation: the Training Guarantee Levy (TGL). It also involves consideration of how similar levies have operated overseas. The conclusion discusses the potential VET contribution to the development of Australia as a knowledge economy. No reform to the funding of VET alone can guarantee that Australia will become more like a knowledge economy, of course. Nevertheless, a knowledge economy depends on, amongst other things, a vibrant, well-resourced and responsive VET system that has the confidence and active support of employers.

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[1] Excellent documentation on the importance of increased labour utilisation is provided in Cameron Allan et al, 'More Tasks, Less Secure, Working Harder: Three Dimensions of Labour Utilisation', *Journal of Industrial Relations*, Vol 41, No 4, December, 1999 pp 519-535. A useful exploration of the (very weak) links between the productivity and the structure of employment is provided in P Barnes et al, *Productivity and the Structure of Employment*, Productivity Commission Research Paper, Ausinfo, Canberra, 1999. An outstanding analysis of the importance of labour intensification in the UK in the 1980s and 1990s has recently been provided by one of Britain's leading scholars of skill formation, Francis Green. See 'It's Been A Hard Day's Night: The Concentration and Intensification of Work in Late Twentieth-Century Britain', *British Journal of Industrial Relations*, Vol 39, No 1, March 2001 pp. 53-80.

[2] It can be argued that the need for investment in 'intangible' assets distinguishes the knowledge economy from the industrial economy. Evidently, employee skills play a critical role in the development of many of these intangible assets – customer and supplier relations, business know-how, reputation, problem-solving capacity and research.

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CURRENT TRENDS IN FUNDING TRAINING IN AUSTRALIA

AUSTRALIA IN COMPARATIVE PERSPECTIVE

Australia is constantly exhorted to become a knowledge economy. The production and distribution of knowledge is a key determinant of economic development and competitiveness (OECD 2001a). It has been argued that globalisation and technological advances have driven the demand for higher level competencies (OECD 2001a). Some estimate of the extent of the challenge facing training policy in Australia can be had from a brief consideration of the extent to which Australia can be seen to be, or seen to be becoming a knowledge economy.

It is not being suggested here that investment in vocational education and training is the same as investment in the knowledge economy. Evidently, investment in knowledge and the development of a knowledge economy is a far broader and more comprehensive endeavour than simply funding vocational education and training. The cultivation of a knowledge economy requires relatively high levels of expenditure on education and training generally, and the characteristics of a knowledge economy will not develop in the absence of a VET system which is geared toward the formation of high level skills. On this construction then, the capacity to train and develop high skills is an important element of a knowledge economy, as is the efficient *deployment* of those skills in organisations.

While it is difficult to directly measure the extent to which the current training effort in Australia is directed toward the cultivation and development of high skills, it is possible to estimate the extent to which the economy and the labour market is producing high skill jobs. Evidence to date would suggest that Australia has a long way to go in terms of the generation of knowledge jobs.

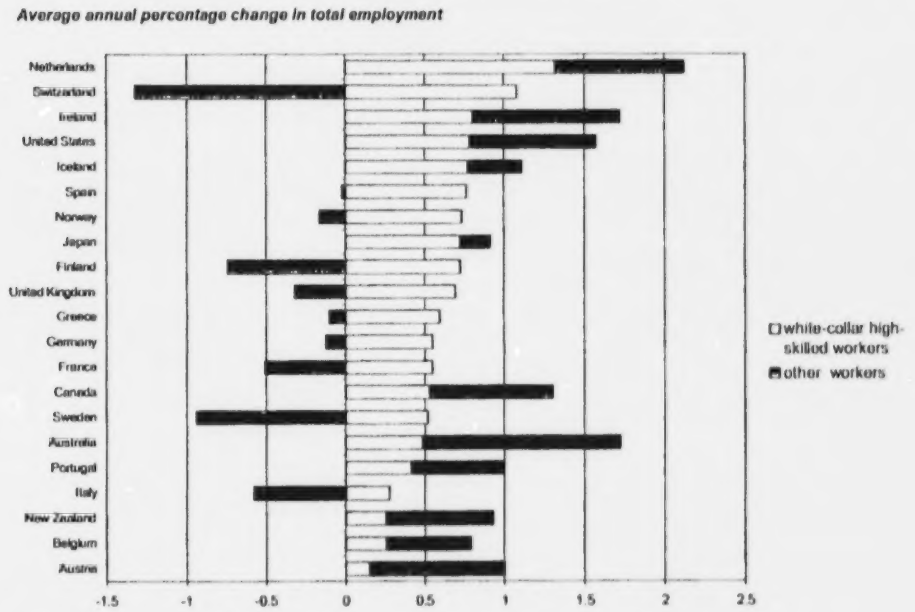
In Australia the areas of growth in the labour market over the past 20 years do not encapsulate either the production or distribution of knowledge. Although there has been some increase in very high skilled jobs in Australia, by international standards the growth rate in knowledge workers is far from competitive. Since the early 1980s the bulk of labour market expansion with regard to forms of employment, occupational and industry growth has been in the low-skilled low-paid jobs. For example, when considering forms of employment casual and contract employment arrangements have overwhelmingly dominated labour market growth. From an occupation and industry perspective growth has primarily been in clerical, sales, and personal service occupations in the hospitality, retail and services industries (ABS 2000a). Although professional occupations in Australia have also shown significant growth a substantial proportion of this growth can be attributed to a change in ABS categories.[3]

International comparisons shown in Figure 1 provide a clear illustration of the extent to which Australia is competing on a global scale in the knowledge economy stakes. Out of 21 OECD countries, Australia ranked 16th with respect to annual average percentage growth in white-collar high-skilled workers between 1980 and 1998. However, in 14 of these countries growth in these professional, technical, administrative, and managerial occupations was higher than growth in all other occupations. This was not the case for Australia where

[3] For example, prior to 1996 nurses were classified as Para-professionals. In 1996 there was a change in occupational categories and nurses were reclassified as Professionals subsequently increasing the category of professionals merely by their inclusion rather than as a result of real growth in Professionals to the same extent had nurses not been included.

growth in white-collar high-skilled jobs accounted for approximately 29 per cent; only two other countries had lower growth rate in high skilled jobs. Moreover, Australia's average annual percentage change in total employment in low-skilled jobs was higher than any other country over the period 1980 to 1990. In Australia there was a 1.2 percentage growth in low-skilled jobs. Only Ireland and Austria had growth rates in low-skilled jobs approximating this level at 0.92 percent and 0.85 per cent respectively. This compares to ten other OECD countries where there was a decline in low-skilled jobs (OECD 2001b). In Switzerland for example, 1.32 per cent of the total change in employment throughout the 1990s was due to a *decline* in low-skilled jobs.

Figure 1: Upskilling in total employment growth, 1980-98



In OECD (2001b) *Education Policy Analysis – 2001*: 103. Sources: ILO database (2000) and OECD (1998), Technology, Productivity and Job Creation.
Note: Countries are ranked in descending order of average annual percentage growth in white-collar high-skilled workers.

Rather than investing in a future in producing and distributing knowledge, since 1995 Australian investment has been heavily skewed towards buildings and related fixed assets (Marginson 2001). This kind of investment at least partly accounts for the growth rate in low-skilled jobs shown in Figure 1 and further contributes to fixing a position for Australia within the 'old' rather than the 'new' economy.

The labour market provides one basis from which to examine Australia's relative position in technological advancement. Another indication is illustrated by the extent to which Australia is preparing for a future as a knowledge economy through investment in education and training. Equitable access to learning at all ages throughout the lifecycle and through a variety of settings is imperative if a country is to become economically competitive on a world market (Burke and Long 2000). Between 1985 and 1995, Australia's investment in knowledge fell by 10.8 per cent and between 1995 and 1998 there was a further deterioration of 3.3 per cent relative to other leading OECD countries.

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To enable comparisons in knowledge investment to be made across countries the OECD has developed an index measuring such investment. This index is the sum of expenditure on knowledge based ventures such as training, research and development and technology all expressed as a proportion of GDP.[4] Time series analysis of this index also highlights the extent of Australia's deteriorating position with regard to knowledge investment since the mid 1980s. Compared to 11 leading OECD countries Australia's investment in knowledge as a proportion of GDP deteriorated by 5 per cent. This decline is in stark contrast to the 15 per cent rise in expenditure as a proportion of GDP in knowledge investment that occurred in the United States between 1985 and 1998. In absolute terms at 8.0 per cent of GDP in 1995, Australia's investment in knowledge ranked third from the bottom out of 13 leading OECD countries; well below the OECD leading country average of 9.2 per cent (Marginson 2001).

Australia's policy position with regard to knowledge investment is clearly demonstrated through expenditure on educational institutions.[5] Part of the decline in knowledge investment in Australia between 1993 and 1999 was due to a decline in education funding as a proportion of GDP from 5.8 per cent to 5.6 per cent. Compared to 29 OECD countries, Australia rated 25th in 1997 with regard to direct public expenditure for educational institutions as a proportion of nominal GDP. In terms of total public and private spending for educational institutions however, Australia ranked 14th out of 23 countries. The significant difference in ranking is explained by the higher than average total funding made privately to educational institutions primarily in the form of payments from full-fee paying students (both international and local) and payments from private industry (Burke 2001).

Constraints on the level of government financial support to both vocational education and higher education have resulted in a sharp decline in public and private funding per student and per course. This decline is particularly evident in the VET sector where expenditure per hour declined by 10 per cent between 1997 and 1999 (Burke 2001: 10). Marginson has also noted that in VET:

> *funding per student and per course hour is now declining sharply, having fallen by 11.0 per cent in the two years 1997 to 1999. The principal cause of the downward trend, as is the case in higher education, has been the partial withdrawal of Commonwealth financial support (Marginson 2001: 6).*

Despite the evidence that there has been a decline in government expenditure on VET per student, per course and per hour, there is some debate about the extent of the decline. The first ANTA Agreement covered funding arrangements between the Commonwealth, the states and territories for the triennium 1993-1995. That agreement was based on a maintenance of the current level of Commonwealth funding with an injection of $100 million recurrent funding plus an additional $70 million per year for each year of the triennium. This was designed to fund growth. The new Coalition Government's 1996-97 budget introduced an efficiency dividend leading to a 5 per cent reduction in funding and the growth funding of 5 per cent on base recurrent funding was discontinued as well (Parliament of Australia Parliamentary Library 2001: 2). The Opposition has claimed that these reforms have amounted to a reduction in

[4] The OECD index again suggests the nature of the relationship between the knowledge economy and VET. As emphasised above increased investment in VET will not guarantee the development of a knowledge economy, however VET is a critical part of a knowledge economy – expenditure on training is an important part of the OECD's knowledge investment index.

[5] This excludes employer expenditure on workplace training.

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funding of almost $160 million (Lee 2001: 2). In its 1997-98 budget the Commonwealth Government further reduced funding in order to provide an incentive to the states to achieve efficiency gains. This reduction, designed to be carried into future years was estimated to be around $20 million in 1998 (Parliament of Australia Parliamentary Library 2001: 2). This system of a reduced level of base funding and funding growth through efficiencies was continued for the 1998-2000 ANTA agreement, under which the states agreed to maintain current funding levels.

The adequacy of growth funding, or the adequacy of relying on efficiency improvements as the basis for funding growth, has been controversial. Throughout the protracted negotiations over the 2001-2003 Agreement the Federal Government made a series of offers eventually providing $230 million in growth funding for the 2001-03 Agreement. However reviewing recent Commonwealth funding of VET prior to this offer FitzGerald noted that:

> (a) Government funding, both state (at least between 1997-2000) and Commonwealth has also been reduced to VET [as well as higher education];
>
> (b) There has not been a corresponding increase in private funding.

The decline in total Commonwealth funding is despite the commitment to maintenance of the level of a major part of the funding covered by agreements with the States ... however total Commonwealth funding has indeed fallen, and as a result, total resourcing of VET has ceased to grow – indeed has been flat in dollar terms from 1998 onwards (FitzGerald 2001: 28).

THE AUSTRALIAN CONTEXT

What has been happening to the level and nature of funding, especially that provided by employers, in the 1990s? The most detailed information we have covers the period 1989 to 1997 and consequently most of our analysis focuses on this period. Recently released data on the situation in the year 2000 indicates that the trends evident during the earlier period have continued.

Employer Perspective

Two factors are at the core of Australia's production and distribution of knowledge. The first has been the structural changes that have taken place in the labour market driven by a desire to increase 'flexibility'. The second is due to the impact that structural changes in the labour market have had on the restructuring of industry and occupations. The restructuring of industry and occupations has narrowed the innovation agenda to allow for the development of an expert core of permanent employees at the expense of knowledge creation for the larger workforce. These factors have had a major impact on employer involvement in, and contributions to, the production of knowledge and skill at the workplace.

At first glance, the overall picture of employer provided training appears quite positive particularly for employees in large and medium sized organisations. In 1997, large and medium sized employers generally reported extensive provision of both structured and unstructured training with very few reporting that they provided no training at all. Put another way, seven out of 10 (72%) of all employees worked for an employer who provided workplace training. Employees in small organisations, who account for 29 per cent of all employees did

not fare as well. Just under half of all small employers provided no training at all and less than a third provided structured training (see Table 2).

Table 2. Employer reported type of training provided in the previous 12 months, Australia, 1997

	Number of Employees in Organisation			
Type of Training Provided	1 – 19 small %	20 – 99 medium %	100+ large %	All employers %
Structured training	30	71	94	35
Unstructured training	49	86	91	53
Did not provide training	43	6	1*	39
Percentage of all employers	90	8	2	100
Percentage of all employees	28.5	15.5	56	100

Source: ABS *Employer Training Expenditure*, 1997. ABS Cat. No. 6353.0. September Quarters.
Population: All employers defined as organisational units.
Note: employers may provide more than one type of training.
* Standard errors around this figure may make results unreliable.

In spite of employer reports of a high level of training, closer analysis shows that, throughout the 1990s, there was a general decline in employer provided training. Nominal expenditure per employee declined from $191.25 in 1993 to $185.49 in 1996. However, the clearest demonstration of this decline was evidenced in the average number of hours of training per employee. Shown in Table 3, the average hours of training fell from an average of 5.7 hours per employee in 1990 to 4.9 hours in 1996. As with the type of training provided, there were distinct differences in the average number of training hours when comparisons were made by employer size. Large employers provided, on average, more hours of training than small or medium size organisations. Despite these differences however, amongst all employers (large, medium and small) the average number of hours spent training decreased from 1989 to 1996. The notable exception to this decline was the higher rate of employer provided training for small and medium sized employers in 1993, coinciding with the third year of operation of the Training Guarantee.

Table 3. Employer reported average number of training hours per employee by employer size, Australia, 1989 – 1996 (select years)

	Number of Employees in Organisation			
	1 – 19	20 – 99	100+	All Employers
	Average Hours Spent Training			
1989*	3.30	3.40	7.30	5.70
1990	3.99	4.10	7.06	5.92
1993	4.11	5.30	6.17	5.55
1996	2.42	3.79	6.45	4.91

Sources: ABS *Employer Training Expenditure*, 1997. ABS Cat. No. 6353.0. Sept Quarters.
Population: All employers, For example, in 1989, of all employers who employed more than 100 employees the average number of hours spent training was 7.3.
* Based on a sample of 2000 employers. The sample for 1990, 1993 and 1996 was the same 6000 employees surveyed in the Employer Training Practices Survey.

Evidence from the CCH/AGSM Human Resources Management Practices Survey confirms that employer expenditure on training has been declining since the early 1990s. Table 4 reports results published and analysed by Collins (CCH 2001) showing the distribution of respondent organisations according to the percentage of payroll allocated to formal training, development and learning activities.

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Table 4. Percentage of organisations allocating various percentages of payroll to formal training, development and learning activities, 1991, 1996 and 2001

% of payroll	2001	1996	1991
Less than 1%	12 (17)	10 (12)	2 (3)
1 – 2.5%	30 (44)	32 (40)	38 (48)
2.6 – 5.0%	19 (28)	28 (35)	27 (34)
5.1 – 10%	6 (9)	9 (11)	11 (14)
More than 10%	2 (3)	2 (3)	2 (3)
Not sure	31	19	20

Source: CCH/AGSM Human Resources Management Practices Surveys, 1991, 1996 and 2001.
Notes: Figures are percentages of organisations. Figures in parentheses are approximate percentages of organisations that were sure of the percentage of payroll allocated to training.

It is notable that the percentage of respondents who were not sure what percentage of payroll was allocated to training has increased markedly since 1996 – almost one third of respondents in 2001 were unable to state how much was spent by their organisation.

By removing these 'not sure' respondents from the calculations the approximate percentages of those respondents who *did* know how much was spent on training are shown in parentheses in each of the expenditure categories. This shows that in 2001 61% of organisations surveyed spent 2.5% or less of payroll on training, up from 52% in 1996 and 51% in 1991. Similarly, the proportion of organisations who could be classified as 'big spenders' (spending more than 5% of payroll) has also been declining from 17% in 1991, to 14% in 1996 and 12% in 2001.

Employee Perspective

Compared to employer reports of the availability of training, employee reports of actual participation in workplace training indicated that access to employer supported training was far from equitable. Although almost three-quarters of employees worked for an employer who provided training, the extent to which various groups of employees participated in employer supported training differed markedly. Employee reports of the types of workplace training undertaken also raise serious questions as to the type of training provided and the extent to which that training actually increased skills and competencies and thus contributed at a macro level to economic development and international competitiveness.

Employee reports of the type of training undertaken indicated that the vast majority of training was not based on specific learning criteria and defined learning outcomes but rather on the ad hoc acquisition of narrow task-specific skills. Overwhelmingly the main type of training that employees participated in was on-the-job training (see Table 5). This form of training covered a broad spectrum of different learning activities. What could be argued as being the more informative of a range of poorly structured on-the-job training activities was 'being shown how to do the job'. But of all the on-the-job training activities,

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employees were least likely to participate in this form of training. On the other hand, the least informative but consistently the most likely form of on-the-job training that employees would participate in was 'teaching self'. These findings call into question the very use of the term 'employer provided training' as the majority of workers were in effect training themselves.

The most rigorous form of training undertaken and that most likely to be based on defined competencies and formal assessment was external training. Although there was a slight but steady increase in the percentage of employees participating in employer supported external training, across the years it consistently remained the least attended form of training.

Table 5. Employee reported participation in types of training.

Type of training undertaken	1989 %	1993 %	1997 %
In-house training	34.9	31.3	33.0
External – Employer supported training	6.4	7.3	11.7
External – Total	9.8	11.8	20.0
On-the-job	71.8	81.8	71.6
Some form of training undertaken	79.0	85.8	80.2

Sources: Published and unpublished data. ABS *Education and Training Experience*: 1997 Cat. No. 6278.0; ABS *Training and Education Experience*: 1993 Cat. No. 6278.0; ABS *How workers get their training*: 1989 Cat. No. 6278.0.
Population: All wage and salary earners.

Amongst wage and salary earners demonstrated inequities were apparent in both industry and occupational groups. In general, data showed that employees in traditional public sector industries (e.g. utilities, community services, public administration) were consistently more likely to participate in training than private sector industry employees (e.g. manufacturing, construction, and wholesale trade) despite the fact that national funding allocations favour private sector industries. The private sector industries that were poor providers of training, such as Construction and Accommodation, Cafes and Restaurants, received relatively generous and growing public funding. Between 1993 and 1996, employer expenditure on training in the Construction and Accommodation, Cafes and Restaurants industries fell by 25.5 per cent and 14.6 per cent respectively (Dumbrell 2000a). These industries were not the only poor performers when it came to training expenditure. Across the board industry expenditure on training dropped by 3 percentage points between 1993 and 1996, but massive fluctuations in expenditure were apparent. For example, in the Wholesale trade industry, and the services sector there were significant declines in expenditure, while the Mining, Utilities and Education sectors showed substantial increases in expenditure (see Table 6).

These figures in part reflect industry responses to the abolition of the Training Guarantee. However, a number of important issues need to be considered when interpreting these gross results. The majority of industries showing declines in training expenditure per employee had consistently lower average expenditure levels for training in both 1993 and 1996. The Communication services industry however, was a notable exception to this where despite showing a significant decline in expenditure per employee total expenditure on training in 1996 was still higher per employee than all other industries with the exception of the Mining and Electricity, Gas and Water industries. Furthermore, there were also marked differences in expenditure between industry sub-divisions particularly in the Construction and Manufacturing industries (Dumbrell 2000a).

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Table 6. Industry changes in structured training expenditure, 1993 to 1996

Percentage change in training expenditure per employee	
Industry	**% Change**
Mining	+ 30.5
Manufacturing	– 5.5
Electricity, Gas, Water	+ 25.6
Construction	– 25.5
Wholesale	– 15.5
Retail	+ 18.7
Accommodation, Cafes, & Restaurants	– 14.6
Transport & Storage	+ 13.1
Communication services	– 29.6
Finance & Insurance	+ 13.0
Property & Business services	– 15.2
Government administration	+ 11.2
Education	+ 23.1
Health & Community services	– 13.6
Cultural & Recreational services	– 17.6
Personal & other services	+ 1.3
All industries	– 3.0

Source: ABS *Employer Training Expenditure*, July to Sept, 1996, ABS Cat. No.6353.0.
Note: Adapted from Dumbrell (2000b).

The incidence of training amongst employees also differed on the basis of sector, occupation and level of educational attainment. Trends in these differences are clearly evident in Table 7. Differences in participation in training of various occupational groups have been particularly stark. Employees in managerial, administrative, professional and para-professional occupations were more likely to participate in training than were employees in the sales, plant and machinery operator, and labourer occupations. Initial education level also played a significant role in differentiating between those likely to participate in training and those not. Employees who received training were far more likely to have a high level of education than employees who had not received training. Table 7 highlights this polarisation. In 1997, 92 per cent of employees in high-skilled managerial, professional and para-professional occupations participated in some form of training compared to 69 per cent of low skilled workers such as sales persons, plant and machine operator/drivers and labourers. Similarly 95 per cent of employees who had attained a Bachelor degree or post-school qualification participated in training in 1997 compared to 74 per cent of employees without post-school qualifications.

As with the trends in employer expenditure on training, employee participation in training showed the positive impact of the Training Guarantee and that the Levy, despite concerns over its effects on access and equity, had a positive effect on lower skilled workers as well. Between 1989 and 1993, following the introduction of the Training Guarantee, there was a 7.2 per cent increase in private sector employees who reported having participated in some form of training. Similarly there was a 7.4 percentage increase in low-skilled workers who reported participating in training[6]. Subsequently however, the decline in training between 1993 and 1997 following the abolition of the Training Guarantee was particularly marked for these same workers. Amongst private sector employees 7.1 per cent fewer employees participated in training in 1997 than did in 1993. In general however, lower skilled workers were even worse off in 1997 than they had been in 1989 before the Training Guarantee was introduced.

[6] Note that this is participation in some form of training. According to the TGL Evaluation report (DEETYA 1996a) the proportion of lower skill workers (and all workers) receiving 'formal employer-supported training' fell between 1989 and 1993.

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Table 7. Employee reported participation in training by various characteristics, Australia, 1989, 1993 and 1997

Groups of wage and salary earners	1989 %	1993 %	1997 %
Sector			
Public	83.7	89.9	89.8
Private	77.2	84.4	77.3
Occupation			
High skilled	88.3	94.2	92.3
Low skilled	70.3	77.7	69.2
Level of Educational Attainment			
Degree or higher	93.9	96.2	95.1
No post-school qualification	75.0	79.2	74.0

Sources: Published and unpublished data. ABS *Education and Training Experience*: 1997 Cat. No. 6278.0; ABS *Training and Education Experience*: 1993 Cat.No. 6278.0; ABS *How workers get their training*: 1989 Cat.No. 6278.0.

Population: All wage and salary earners.

Note: High skilled refers to managers, professionals and para-professionals. Low skilled refers to sales and service workers, plant and machine operator/drivers and labourers.

Workforce stability or lack thereof was another defining feature that differentiated employees who were more likely to receive training from those who did not. Employers who had relatively high turnover rates provided more training on average than did employers with stable workforces. Of all employers who had at least half of their workforce stable for more than 5 years, just over half (53%) provided some form of training. In contrast, 91 per cent of employers with continual turnover as reflected in more than half of their workforce turning over annually, provided some form of training (Considine 2000). These data on the incidence of training with regard to workforce stability suggest that the content of training in organisations with high levels of training was not typically aimed at the production and distribution of knowledge. Rather it is more likely that the high levels of training that were seen in these organisations was aimed at the provision of entry level specific skills that enabled employees to perform the basic tasks required of the job.

Finegold and Soskice (1988) have argued that when a workforce is typified by a high proportion of transient employees who are utilised by employers to deal with fluctuations in the market, knowledge production and distribution is isolated to a privileged core of high-skilled permanent employees. The remaining majority of employees are relegated to precarious and low-skilled employment. Over the past two decades Australia's workforce has become increasingly non-permanent. Rates of part-time and casual employment are higher than ever before. Organisational downsizing and restructuring has forced workers, who had typically enjoyed stable working lives into forms of employment in which employers systematically minimise their obligations and commitment to them (ACIRRT 1999).

The nexus between low levels of training and non-standard forms of employment is clearly apparent in the latest available data on the incidence of training amongst employees in the twelve months to June 2000 by form of employment. These data are provided in Table 8. It indicates that, if anything, the trends of the earlier 1990s have worsened. Over one third (34.8 percent) of employees reported that they did not undertake any form of unstructured or structured training during the previous 12 months. Amongst casuals only half (50.5 percent) reported receiving such training.

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Table 8. Type of Training Undertaken by form of Employee Status, Australia, April – June, 2000

WHETHER RECEIVED **TRAINING** IN THE LAST 12 MONTHS IN MAIN JOB	EMPLOYEES				ALL EMPLOYEES
	'PERMANENTS'	'FIXED TERM CONTRACT'	'CASUALS'		
	Employees with leave entitlements not working on a fixed-term contract	Employees with leave entitlements working on a fixed-term contract	Self-identified casuals	Employees without leave entitlements who did not identify as casual	
	%	%	%	%	%
Undertook **one or more** of these types of training	69.9	81.8	49.5	50.7	65.2
Undertook a **structured training course**	31.3	40.5	11.5	12.6	26.6
Attended a **seminar, workshop** or **conference** for training purposes	43.0	55.4	14.2	22.8	36.3
Undertook **on-the-job** training	36.9	44.1	35.4	30.0	36.7
Used **self-learning** package	11.7	13.1	3.5	7.3	9.8
Did **not** undertake any of these types of training	30.1	18.2	50.5	49.3	34.8
Total %	100.0	100.0	100.0	100.0	100.0
Number ['000s]	4801.5	286	1596.4	159.9	6843.7
(% of all employees)	(70.2%)	(4.2%)	(23.3%)	(2.3%)	(100.0%)

Source: ABS, *Employment Arrangements and Superannuation*, April to June 2000, Cat. No. 6361.0.
Population: This table covers workers engaged in contracts of service – i.e. Employees. It excludes owner managers of incorporated organisations.
Note: Total may be less than the sum of components as people may have undertaken more than one type of training.

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The state of the Australian labour market, the results from these national training surveys and the data from the OECD support the assumption that much of employer provided training in Australia is aimed at the barest minimum and does little to contribute to a knowledge-based economy.

Individual Perspective

At the individual level however, the story is quite different. In contrast to employers, individuals are taking an increasing responsibility for value added training. As such, while the economy may not yet be knowledge-based it appears that society is. Between 1980 and 1994, high school retention rates more than doubled (Long, Carpenter, and Hayden 1999). This is significant as educational attainment has been found to be the most important indicator of unemployment outcomes (Le and Miller 1999).

Participation in post-compulsory education is also higher than ever seen previously. Between 1989 and 1999 there was a 28 per cent increase in the number of people aged 15 to 64 undertaking a recognised post-compulsory education course (ABS 1999a). Significant proportions of those participating in post-compulsory education courses attained a formal qualification as a result of their studies. Between 1989 and 1997 the proportion of wage and salary earners who had a post-school qualification increased from 47 per cent to 54 per cent (ABS 2000c). Nevertheless, employee reports of participation in education and training support the view that there is a widening of the gap between those with high level skills and those without. Employees who had already attained a Bachelor degree or higher level of education were far more likely to participate in training than were employees with no post-school qualifications.

Age differences between those who participated in further training and education and those who did not participate was also apparent. Nine out of ten wage and salary earners aged between 20 to 24 attended some form of training in 1999. This compared to a participation rate of around five out of ten 55 to 64 year old wage and salary earners. Nevertheless, in terms of absolute change the numbers of those participating in VET and higher education institutions has risen more rapidly amongst older students than it has amongst younger students with the most significant change being amongst those aged 45 to 54 years (ABS 2000c). A portion of this change could be attributed to people gaining higher level skills so as to keep pace with the changing nature of work. However, another explanation for some of this change is the increasing pressure on traditional blue-collar low-skilled workers to require formal qualifications.[7] Yet another explanation is that in a churning labour market individuals seek to attain any skills that will afford them a secure position in the workforce.[8]

Yet other data strongly suggest that individual workers are now compelled to take more responsibility for – and more of the burden of – their own training. Since 1989 there has been a considerable rise in the number of people taking part in externally provided non-employer supported training. As Table 5 showed in 1989, 9.8 per cent of all those who had participated in training in the previous year had taken an external course that was not supported by an employer. By 1997 this figure had risen to 20 per cent indicating an increasing trend for wage and salary earners to take responsibility for their own learning.

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[7] For example, commercial contract cleaners are increasingly required to attain formal qualifications which now extend to a Diploma level.

[8] For evidence of the extent of labour market 'churning' in Australia see: Watson and Buchanan (2001): 203-205.

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With the increasing trend for individuals to fund their own training the apparent increasing prevalence of underemployment is concerning. Underemployment in this context takes the form of labour resources being under-utilised with respect to existing qualifications and skills (Livingstone 1998). In 1989, 21 per cent of those with a post-school qualification who were employed on a full-time basis were in jobs that required no formal education (ABS 1989). By 1993, this trend had increased so that 40 per cent of those employed on a full-time basis who had a post-school qualification were working in jobs that required no formal educational qualifications (ABS 1993).

The under-utilisation of skills and education was also apparent amongst the unemployed. In particular, by 1997 those who were unemployed were going to greater lengths than ever before to improve their vocational skills and education through additional training. Table 9 shows the extent to which participation in training had increased amongst the unemployed and those marginally attached to the labour market between 1993 and 1997. The most significant increases in training participation for the unemployed were evidenced amongst those who had traditionally enjoyed a secure position in the labour market: males, those with higher degrees, young persons and those from English speaking backgrounds. Again, these figures are likely to reflect to some extent labour market churning with training merely providing basic on-the-job skills for short-term employment arrangements.

Table 9. Percentage of unemployed or marginally attached persons who undertook some form of training in the previous 12 months

	1993	1997
Gender		
Male	32.5	44.7
Female	40.1	38.1
Educational Attainment		
Higher degree	53.2	65.3
Postgraduate diploma	54.8	57.3
Bachelor degree	64.4	64.8
Undergraduate diploma	47.7	59.1
Associate diploma	50.7	67.3
Skilled vocational qualification	41.3	50.1
Basic vocational qualification	52.4	50.3
No post-school qualification	37.8	42.1
Age		
20 to 24	43.2	70.6
25 to 34	37.8	46.0
35 to 44	35.0	37.0
45 to 54	25.0	31.9
55 to 64	16.4	25.2
Language Background		
English	30.9	55.1
Non-English speaking	25.7	34.4

Sources: Published and unpublished data. ABS *Education and Training Experience*: 1997 Cat. No. 6278.0, ABS *Training and Education Experience*: 1993 Cat. No. 6278.0.
Population: All those not employed[9] in the reference week. For example, in 1997, of all those with a post-school qualification who were not employed, 55% undertook some form of training.

[9] Not employed includes those unemployed or marginally attached to the labour market during the reference week (week prior to the interview).

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SUMMARY OF CURRENT TRENDS

The main messages to emerge from this analysis of recent trends in Australian VET funding and financing are that:

- Australia is not yet succeeding in producing a relatively high proportion of high skill jobs or jobs demanded in the knowledge economy.
- Current patterns of investment in knowledge indicate that Australia is likely to fall further behind other OECD countries without a significant change in direction.
- Australia's recent record in funding education indicates that:
  - Total expenditure as a proportion of GDP is falling;
  - There has been a significant decline in Government expenditure as a proportion of GDP over the 1990s;
  - There has been a significant increase in private expenditure as a proportion of GDP over the 1990s, but most of this appears to be coming from individuals and not firms.
- Australia's recent record in funding VET indicates a significant decline in overall expenditure per student hour since 1997.
- Employer funded training has been declining since the early 1990s both in terms of expenditure per employee and average hours spent in training.
- While there has been strong growth in the number of New Apprenticeships since their introduction, and while this is indicative of a continuing commitment by many employers to training, these increases in New Apprenticeships have not appeared to stimulate a sustained recovery in employer expenditure on training.
- Employer funded training appears to have become increasingly concentrated in narrow, task-specific skill acquisition.
- Employer funded external training has been increasing - the numbers receiving employer support for external funding has increased but the amount of support per person has declined. Employee funded external training has been increasing at a much faster rate, suggesting that an increasing amount of the training burden is being carried by individual workers.
- The incidence of employer funded training is not uniform across industry. Importantly, traditionally poorly performing industries continued to perform poorly throughout the 1990s.
- The polarisation of the labour market into high and low skill workers appears to be widening.
- There continues to be strong evidence that the skills that are presently in much of the Australian workforce are currently being under-utilised.

Expenditure on VET is a critical element of a knowledge economy; it is far from a sufficient condition for the generation of a knowledge economy, but it is a necessary condition. The problem is not just one of needing more financial

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support for training, although this is certainly the case. In addition the key challenges include:

- Lifting the contributions of key industries;
- Lifting the performance of poor training industries;
- Ensuring that skills can be utilised in high skill jobs.

The preceding analysis has identified the level of employer supported training as one of the key challenges facing the contemporary VET system. Many employers have embraced New Apprenticeships and there has been strong growth in the number of New Apprenticeships since their introduction. While this is heartening it has not translated into an increase in employer funding. Adequate employer funding of VET and employers' utilisation of skilled employees in skilled jobs remain some of the most important reform imperatives. It is important now to give some consideration to the nature of the forces driving current dynamics.

UNDERSTANDING THE TRENDS

Since early colonial times Australia's political economy has been highly dependent on the export of bulk commodities. Throughout most of the twentieth century the dominant policy mix worked to distribute income primarily through the labour market in a way that both limited and entrenched inequalities. This policy mix was liberal collectivist in nature. It took the form of 'new protection' at the turn of the twentieth century supplemented by Keynesian inspired demand management arrangements following the end of the Second World War. In this context living standards primarily through interventions in the labour market were designed around the vision of the classical wage earner model of employment. The essential features of this model are well known. Labour was defined in terms of:

> *workers (who were often tacitly conceived as male) who were engaged full time on a continuous (or full year) basis as employees (i.e. not as contractors). Typically it was also assumed that the employer was a large scale enterprise that owned and controlled the place of work (ACIRRT 1999: 165-7).*

For much of the last century this model provided an accurate account of the nature of work for an increasingly large section of the labour force.

By the late 1960s and early 1970s changes in Australia's economic situation and in the nature of the labour market highlighted limitations in this model's capacity to deal with emerging labour market realities and its desirability as a basis for labour market interventions. The break down of the 'new protection' settlement and its allied model of work since the mid 1970s has given way to a dynamic of economic development based on inequality (Watson and Buchanan 2001).

Arguably the greatest change in the nature of work has been the rise in non-standard forms of employment. Comprehensive information on the workplace incidence on the nature of these forms of employment was collected as part of two large scale workplace surveys undertaken in 1990 and 1995 (Callus et al., 1991 and Morehead et al., 1997). Some of the findings of this study are summa-

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rised in Table 10. It shows developments in workplace practices concerning the use of casuals and agency workers, proportion of workplaces reporting retrenchments and reliance on outsourcing.

Table 10. Key Indicators of Restructuring in Australian Workplaces 1990 - 1995

Form of Restructuring	1990 (%)	1995 (%)
Workplaces Using		
Casuals	64	70
Agency workers	14	21
Workplaces Reporting Retrenchments	26	27
200 – 499 employees	39	44
500+ employees	39	60
Falling Workplace Size		
% of workplaces outsourcing since 1990		35
% of employees in 100+ workplaces	46	41

Source: A. Morehead, et. al., *Changes at Work: The 1995 Australian Workplace Industrial Relations Survey*, Melbourne, Addison Wesley Longman, 1997.
Notes: Data on the use of casuals and agency workers, retrenchments, unpaid overtime and outsourcing comes from workplaces with 20 or more employees. Data on proportion of employees at workplaces with more and less than 100 employees comes from estimates covering the whole working population.

All these indicators point to a decline in full-time, permanent jobs and a growth in precarious forms of employment which provide managers with tighter control over how labour is deployed on the job to ensure all hours worked are productive. The greater use of casuals, employment agencies and retrenchments highlights this dynamic. Of particular significance is the rising incidence of retrenchments amongst larger workplaces. Despite entering the recovery phase of the trade cycle in the mid 1990s large Australian workplaces reported a higher incidence of job shedding in the middle of the decade than they did just prior to the recession of the early 1990s.

As the 1990s drew to a close less than half the workforce was employed on a full-time, permanent basis. As figure 2 shows only 25 percent of the employed workforce in June 2000 worked between 35 – 40 hours a week as permanent employees. Indeed, over the course of the 1980s and 1990s, precarious categories of employment have grown at a faster rate than full-time, permanent jobs. Between 1988 and 1998 '69 per cent of net growth in the number of employees was in casual employment' (ABS 1999b: 3). Casual employment is especially widespread amongst women, where one in three are now employed on this basis. What was particularly significant about developments in the 1990s was that precarious forms of employment became widespread in former unionised strongholds. In metal and engineering, for example, non-standard forms of work accounted for less than one worker in ten in the late 1980s. Today, however, approximately one quarter of that sector's workforce is engaged on either a casual, labour hire or contractor basis (ACIRRT 1999). Similar trends have occurred in the strategically important construction, road transport and warehousing sectors (Buchanan and Watson 2000b). Employers are now increasingly creating jobs of this nature.

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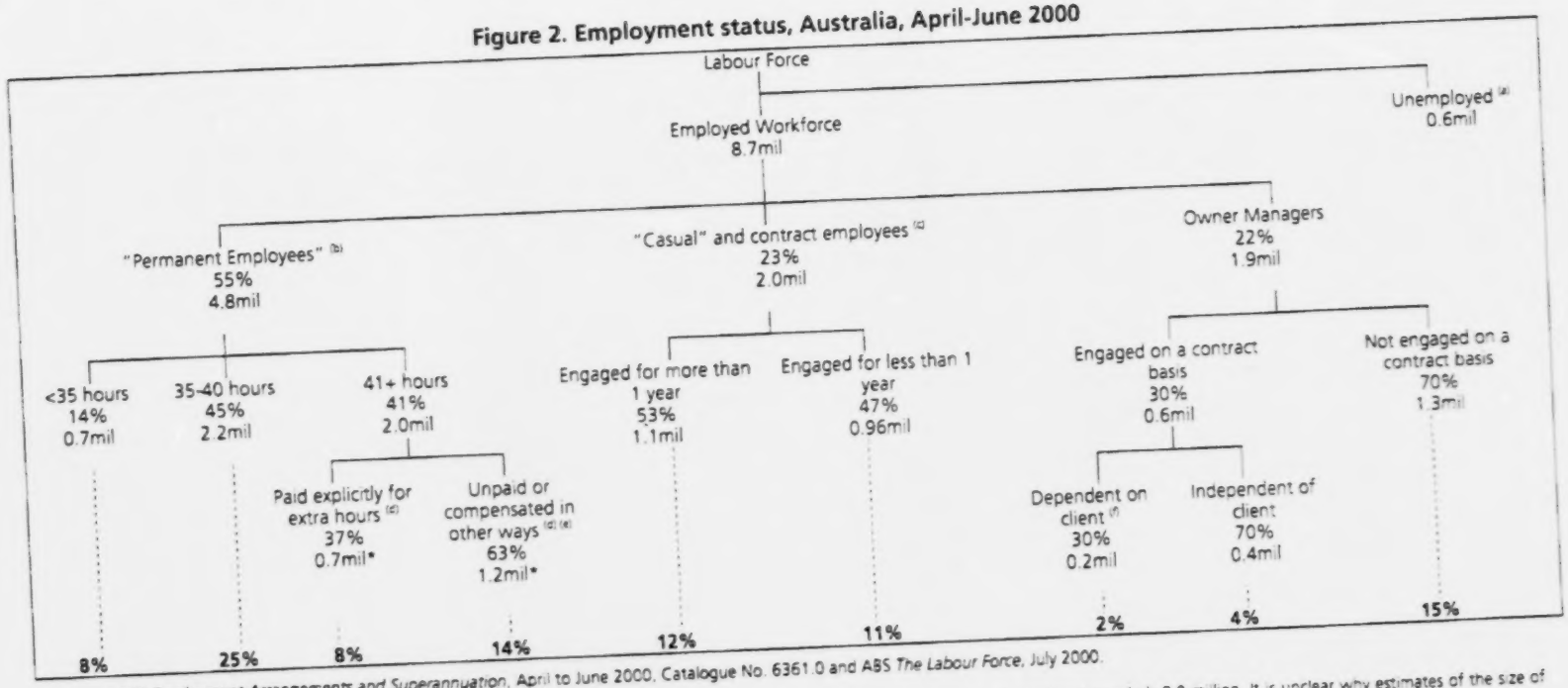
Figure 2. Employment status, Australia, April-June 2000



Source: ABS *Employment Arrangements and Superannuation*, April to June 2000, Catalogue No. 6361.0 and ABS *The Labour Force*, July 2000.

(a) This figure is an average of figures for April to June 2000 from the ABS Labour Force Survey. The corresponding number of employed people is 9.0 million. It is unclear why estimates of the size of the employed workforce differ between the two surveys.

(b) Permanent employees are those employees with leave entitlements not working on a fixed term contract.

(c) Includes employees with leave entitlements working on a fixed term contract, self-identified casuals and employees without leave entitlements who did not identify as casual.

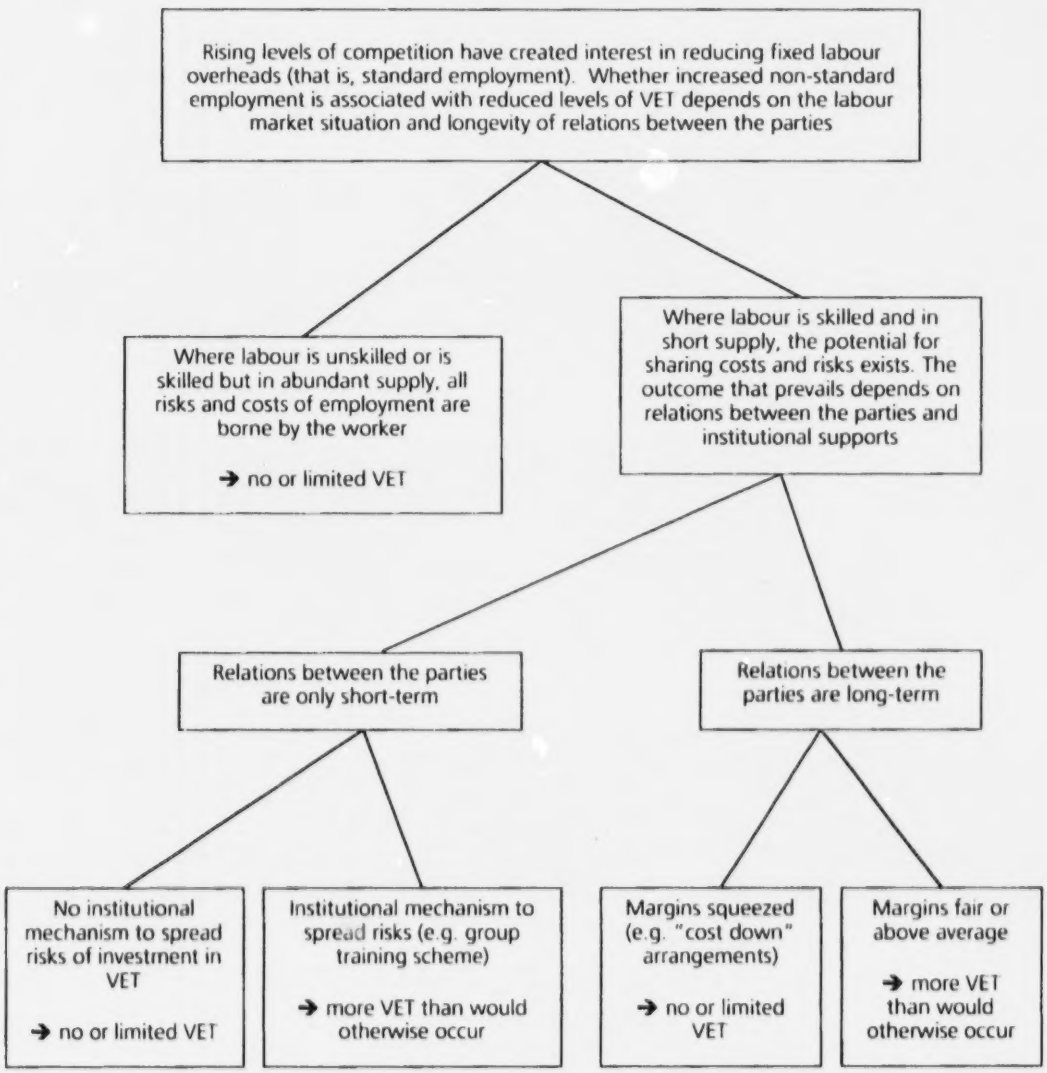
(d) This assumes that anyone who usually works more than 40 hours a week is working "extra hours". * Paid and unpaid figures are based on proportion of all those permanent employed persons who worked extra hours in the last 4 weeks in their main job (including part-timers).

(e) Compensation for extra hours includes time off, non-cash benefits and provision in work agreement, contract or salary package. Approximately 8% of employees who worked extra hours worked both paid and unpaid for these hours.

(f) Dependent on client is where the contract prevented the contractor from subcontracting their own work or working for multiple clients; or the client had control over their working procedure

Implications of this shift away from the classical wage earner model of employment for training have been profound. The lower levels of training for casuals were noted in the previous section. Last year we released a report that examined the nexus between rising levels of non-standard work and education and training (Hall et al., 2000). Our key findings were firstly the recognition that not all situations involving non-standard employment necessarily result in all the costs and risks of employment being shifted entirely onto the workers involved. Our field work revealed that the outcomes, especially for training, depend on the level of skills involved and their relative abundance. In addition, the longevity of relations between the parties and institutional support surrounding them appear, in conjunction with labour market settings, to account for the VET outcomes that are associated with non-standard employment. Figure 3 provides a diagrammatic summary model of the links between non-standard employment and who bears the burden of providing VET (Hall et al., 2000: 44).

Figure 3. Understanding the links between non-standard employment and level of vocational education and training (VET)


Rising levels of competition have created interest in reducing fixed labour overheads (that is, standard employment). Whether increased non-standard employment is associated with reduced levels of VET depends on the labour market situation and longevity of relations between the parties
Where labour is unskilled or is skilled but in abundant supply, all risks and costs of employment are borne by the worker
→ no or limited VET
Where labour is skilled and in short supply, the potential for sharing costs and risks exists. The outcome that prevails depends on relations between the parties and institutional supports
Relations between the parties are only short-term
Relations between the parties are long-term
No institutional mechanism to spread risks of investment in VET
→ no or limited VET
Institutional mechanism to spread risks (e.g. group training scheme)
→ more VET than would otherwise occur
Margins squeezed (e.g. "cost down" arrangements)
→ no or limited VET
Margins fair or above average
→ more VET than would otherwise occur

Source: Hall, R. , Bretherton, T. and Buchanan, J. *"It's not my problem" : The Growth of Non- standard Work its Impact on Vocational Education and Training in Australia*, National Centre for Vocational Education and Training, Leabrook (South Australia), 2000 p.44

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The key issues to grasp are the importance of the level and abundance of skill concerned and even where skilled labour is in short supply, the extent to which VET costs are shared varies depending on the longevity of relations between the parties and the existence of institutional mechanisms to facilitate it (Hall et al., 2000: 44 – 52). But while a consideration of the dynamics summarised in Figure 3 is important it is also important to keep in mind our most fundamental finding:

> *When examining education and training issues associated with non-standard employment, most attention focussed on induction and 'near fit' training. No employers examined assisted in the acquisition of foundation skills. Where such training occurred it was all funded by either individuals or governments. (Hall et al., 2000: 35).*

Given that nearly half the workforce is employed on a non-standard basis and that this proportion is growing in a secular fashion this finding raises serious challenges for education and training policy in the future. The growth in non-standard work appears to have accentuated the trend of shifting some costs of training from employers to individual workers. As noted above, there has been a strong increase in the proportion of employees undertaking external training not supported by their employer (see also Vanden Heuvel and Wooden 1999).

In thinking through new approaches to policy there is a need to move beyond a pre-occupation with the 'individual' and the 'enterprise' as the primary units of analysis and policy concern. Recent research for the BVET Board of NSW has found (Buchanan et al., 2001) that future analysis of skill formation and utilisation issues must be based on a good understanding of skill 'eco-systems'. These can be defined as clusters of high, intermediate or low-level competencies in a particular region or industry shaped by inter-locking networks of firms, markets and institutions.[10] Any policy research concerned with skill formation needs, therefore to deal with the following:

- business setting (e.g. type of product market, competitive strategies, business organisation/networks, financial system);
- institutional and policy framework (VET and non-VET);
- modes of engaging labour (e.g. labour hire);
- structure of jobs (e.g. job design, work organisation);
- level and type of skill formation (e.g. apprenticeships, informal on-the-job training).

Analysing the interaction between these inter-locking forces is necessary to understand changes to approaches to skill formation for a particular region or sector.

[10] The concept of skill eco-systems is similar to the concept of industry clusters in the sense that they are regionally defined and industry-specific, however they emphasise the importance of the interrelationship between firms, markets and institutions and focus on the use of skills rather than just on patterns of production and distribution.

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Identifying skill eco-systems as a means of thinking through issues associated with the linkages between work and skill has a number of important analytical and policy implications:

- High-skill eco-systems are important as the engines of economic growth and development but policy needs to keep in mind eco-systems which are important for the social value of their work or as generators of employment;

- Eco-systems are themselves internally diverse. The IT sector, for instance, is broadly polarised between high-skill and routinised work (e.g. 'netslaves'). Consequently, even in the pursuit of these high-skill eco-systems, policy needs to be mindful of the needs of employees in routinised jobs;

- Policy does make a difference. It is a crucial component in the dynamics that structure the character of eco-systems. It has a major influence on the evolution of the formation and deployment of skill;

- VET policy and skill formation need to be located within a broader matrix of influences and policy domains.

The key challenge for policy-makers then is how to combine a diverse range of policy instruments across a wide range of portfolios in order to manage a diverse bundle of eco-systems. Some leads as to how this affects new approaches to policies concerning the funding of training are considered in the next section.

POLICY RESPONSES

Until the second half of the 1980s Australia's characteristic policy orientation toward VET concentrated on ensuring the adequate supply of skills defined fairly narrowly in terms of the traditional trades and professions. The TGL and the associated reforms of the Training Reform Agenda and Award Restructuring marked a significant shift to a more comprehensive policy on workplace and industry training (Marginson 1997a; Marginson 1997b).

Through the 1960s and 1970s the provision of vocational and professional skills was increasingly funded through Government funded institutions and infrastructure. University enrolments expanded dramatically and the TAFE system came under the influence of the Commonwealth. The contribution of industry to the vocational education and training effort was largely restricted to the extensive training undertaken by large statutory authorities and some large corporates with a strong training culture usually manifested in large scale intakes of apprentices in skilled blue collar, predominantly male trades. These key organisations effectively supplied skills to the rest of the labour market.

The Training Guarantee Levy was part of a package of reforms (Teicher 1995: 4) that signalled a much more pro-active approach to the question of skills and training that attempted to address the demand side as well as the supply side. The discussion papers released by the Minister for Employment, Education and Training in 1988, *A Changing Workforce* and *Industry Training in Australia: the Need for Change*, argued that Australia was confronting a fundamentally different global economy and set of skill imperatives that necessitated an improved training effort by industry that was geared toward the utilisation of skills in the enterprise. As the review report into the Training Guarantee Levy makes clear the policy orientation was directed toward three goals:

- The reform of the institutional framework for the delivery of VET – which came to be known as the Training Reform Agenda;

- The development and encouragement of new incentives for the development and deployment of skills within workplaces – through the award restructuring process;

- The reform of the funding arrangements – including the introduction of a Training Guarantee Levy.

The TGL was not simply a new way of funding VET; rather it was a key part of a concerted attempt to stimulate employer spending on training and encourage employer recognition of the value of training and the deployment of skills in enterprises. The policy was also directed toward increasing industry expenditure on training, but it was clearly trying to link that increase to a better recognition of and deployment of skills and to better access to a more responsive, flexible and comprehensive system of competencies and qualifications.

Any reassessment of the TGL must be seen in this broader policy context. As discussed below, while the TGL clearly resulted in increased employer expenditure on training, and the training reform agenda succeeded in providing a system that was more flexible, responsive and open to industry, a significant doubt remains as to whether the skills of Australian workers developed and were sufficiently recognised as part of an award restructuring process consistent with the generation of a high skill future.

THE TRAINING GUARANTEE LEVY

The *Industry Training in Australia* discussion paper was used by the Employment and Skills Formation Council in late 1989 as the basis for extensive community and industry consultations. Despite the opposition of employers to any levy, the majority of bodies and agencies consulted supported the concept of some kind of government-sponsored levy to fund training. However, the 'internal levy' that was ultimately chosen by the government was not the model favoured by most of the bodies consulted by the Council. A range of alternatives was proposed, including a two-tier levy that would be spent in part by individual enterprises and in part by industry training bodies (proposed by the ACTU), state-based voluntary levies (West Australian and Queensland governments), levy funds distributed by industry based training bodies (South Australia) and a variety of voluntary schemes. The compulsory internal levy that was eventually recommended was chosen principally because it was the least administratively complex and because it maximised the discretion for individual enterprises in spending the required proportion of payroll on 'structured training' (DEETYA 1996a: 24).

The TGL took effect from 1 July 1990. Small business was exempted from the scheme. All employers (with a few exemptions for organisations such as charitable institutions) with a payroll of over $200,000 were required to spend at least 1% and then 1.5% (after July 1992) of payroll on 'structured' employment-related training. Employers who failed to spend the required amount were then required to pay the shortfall into the Training Guarantee Fund. Those funds were earmarked to cover administration costs and the collection of data on training with the balance going to the states for their training programs. Ultimately the fund failed to even cover the administration costs of the scheme – more a reflection of the high level of compliance than the cost of the admini-

stration of the scheme. The scheme was suspended in July 1994 and finally abandoned in 1996.

Evaluation of the TGL

The conventional wisdom concerning the 'experiment' of the TGL might be summarised as follows:

- It was unpopular with employers;
- It was marred by widespread rorting;
- It failed to stimulate expenditure on genuine training.

However, a careful reconsideration of the review of the TGL conducted by DEETYA in 1996 provides little support for these contentions. On the contrary the TGL emerges from that review as a program that was largely successful in meeting its objectives (See also: Teicher 1995). Much can also be learnt from an understanding of the character and causes of its failings.

The TGL appears to have had a positive effect on industry training expenditure, although its impact was uneven. According to the DEETYA evaluation, more than half (57%) the eligible employers surveyed reported that their training expenditure had increased over the four years of operation of the scheme. Increasing expenditure appears to have been related to the levy: amongst employers above the $200,000 threshold expenditure increased by 15%; amongst those below the threshold expenditure fell by 11% (DEETYA 1996b: 6).

It appears that those who were not affected by the levy – those below the threshold and those large organisations that already spent in excess of the mandated amount anyway – behaved consistently with the recessionary conditions of the early 1990s. Average training effort (measured in terms of hours of training per employee) amongst those groups actually fell (although average training expenditure amongst the large employers rose). In this sense the TGL appears to have significantly sheltered training expenditures from the impact of the recession.

The magnitude of the increase in training expenditure amongst eligible employers was considerable. Average training expenditure by employers grew by 35% between 1989-1993; in the private sector it grew by 55%. The DEETYA evaluation estimated that the TGL itself accounted for an extra $160 million being spent by employers in the 1993-1994 year alone (DEETYA 1996b: 8). This equates to an increase of approximately 4% in employer expenditure on training for that year (DEETYA 1996b: 7). Given that the scheme cost on average $1.6 million a year to administer this also represents a fair return on the investment of Commonwealth funds. As a government program the TGL certainly represented good 'value for money'.

The TGL appears to have stimulated increased expenditure in firms in most size categories; the average increase was greatest in medium sized organisations of 20-99 employees. However, the impact of the TGL on expenditure was very uneven in terms of industry and jurisdiction. The evaluation notes that qualitative analyses of the impact of the levy within industries indicate that there was great diversity amongst individual organisations in the same industry. This unevenness is attributed to the 'individualistic basis on which the scheme operated' (DEETYA 1996b: 11).

The evaluation report argues that the TGL had the greatest impact at the margins; i.e. it had a positive effect on organisations where the incentives and disincentives to train were reasonably finely balanced. Where there were strong disincentives to train, the evaluation notes that many employers simply paid the shortfall.

In addition to stimulating training expenditure the TGL also had a number of other positive effects. In many organisations the levy had the effect of increasing the prominence and status of training – 47% of respondents to the evaluation survey noted that the levy had improved the attitude of management to training. While the evaluation concedes that it is difficult to find any clear evidence of the effect of the levy on training quality, on balance it concludes that the evidence is 'fairly positive' (DEETYA 1996b: 13). Enterprise training plans became more common and 40% of respondent organisations who conducted any training at all reported that training methods had improved. While there have been accusations that the levy simply encouraged expenditure on items that simply 'padded-out' the training budget – meals, accommodation, travel – the evaluation report notes that this kind of padding declined over the Levy's lifetime.

Other evaluations reinforce the impression that the TGL succeeded in changing employer attitudes to training. Teicher notes that the TGL appeared to have improved management's recording of training expenditure, increased the capacity of firms to evaluate training and encouraged a more strategic approach to training in many firms (Teicher 1995: 11).

The levy was not entirely successful however. Although it was not designed to achieve particular access and equity goals, the levy failed to have a positive effect on the access of particular social groups to employer-funded workplace training. Lower skilled workers, migrants, young workers, employees in small workplaces, casuals and highly mobile workers all fared worse in 1993 than in 1989. The evaluation report summarises this trend in terms of 'more money being spent to train fewer people' (DEETYA 1996a: 40). Those in more skilled positions, higher up occupational hierarchies, have always tended to receive more training; the levy failed to ameliorate this tendency. It is likely that employers, during the recession of the early 1990s deliberately focussed their training expenditure on more skilled, more valued employees, reasoning that they were unlikely to retain more peripheral workers. While this cannot be blamed on the TGL per se, it does indicate that there was nothing in the TGL to encourage a more equitable distribution of training opportunities. The evaluation also notes that the decline in expenditure on particular groups may have been much more pronounced in the absence of the TGL; for example over one third of respondent employers claimed that the levy had the effect of increasing the amount expended on lower skilled workers.

The finding that the levy failed to have a positive effect on access and equity is consistent with the broader picture of the training burden shifting in the 1990s from employers to individuals. As the amount of workplace training offered to non-standard, lower-skilled, young and migrant workers decreased the proportion of employees undertaking some training or study at their own expense almost doubled. (DEETYA 1996a: 41).

The other strong negative to emerge from the evaluation of the TGL was the failure of private training providers to effectively respond to the new level of employer demand. Employers who came onto the training market as new consumers reported generally poor experiences with providers and with the

training market in general. Employers also reported significant confusion about the operation of the scheme and indicated a strong need for much better information, advice and assistance in accessing appropriate training. According to the evaluation: 'many employers admitted to having gained nothing from the scheme because they did not know where to begin. Many had no source of advice on training strategies except their accountants, some of whom treated compliance purely as an exercise in tax minimisation' (DEETYA 1996b: 16).

It was noted above that it is sometimes asserted that the levy was accompanied by widespread employer opposition. In fact, ATO data analysed by the DEETYA evaluation suggest a more subtle picture. Employer associations and industry bodies were initially very hostile to the scheme. At the outset of the operation of the levy however, almost 70% of employers thought that the levy was an 'excellent' or 'reasonable' idea. Over the course of the four years of operation of the scheme, employer views hardened while, by 1994, all but one of the major industry associations felt that there were some benefits that had resulted from the scheme (DEETYA 1996a: 90). Although positive support for the scheme amongst employers had fallen to 42% by 1994 this was still greater than the 37% negatively predisposed to the TGL.

The reasons behind the negative attitudes held by a minority of employers are also instructive (DEETYA 1996a: 90). The most common complaint was the 'paper burden' of compliance. The second most common complaint was the 'insensitivity or irrelevance' of the program to the organisation's business or industry. The view that government had no business telling organisations how much to spend on training was not as commonly held as might be thought – less than 10% (on average over the years of operation) of employer respondents raised this issue.

Compliance with the scheme was very high throughout the operation of the TGL. There is little evidence to support the assertion that rorting was widespread. Despite only a small proportion of audits resulting in claims being ruled ineligible because of 'excessive recreational content', rorting was a key focus of the third round of audits conducted by the ATO. No evidence emerged that it was a serious problem (DEETYA 1996a: 80, and see especially highly positive employer attitudes towards the TGL in ABS, Training Practices Survey, 1994 Table 14).

The TGL in Hindsight

The TGL succeeded in achieving some if its most important goals – employer expenditure on structured training was stimulated and the levy proved decisive in protecting training expenditure from cutbacks in many organisations facing the recession of the early 1990s. The levy also served to heighten managerial interest in training. Confronted with a compulsion to spend on training, many employers took an unprecedented interest in how that money was spent.

However this did not amount to the stimulation or encouragement of a training culture in very many organisations that did not have a training culture in the first place. The problem areas identified by the DEETYA evaluation were:

- Wholesale and retail trade, storage, road transport, personal services, private health, food processing, entertainment and recreation, hospitality, construction industries;

- Small businesses with fewer than ten employees (exempt from the TGL) and independent businesses in rural and regional areas;

- Labourers and plant operators, sales workers, casual employees and women in female dominated industries.

The evaluation highlights the failure of the TGL to develop a training culture for workers with these characteristics employed in these settings. The absence of such a culture for such workers remains as much of a problem today as it was then.

A deeper analysis of this key failure of the TGL to stimulate adequate trainers is salutary for an understanding of the present policy predicament. There are a number of factors that can be seen to be behind the failure of organisations in the 'problem areas' to improve their training performance even in the context of a compulsory internal levy such as the TGL:

- "Hitting the wall". A number of organisations that had difficulty complying with the scheme noted that over the course of the operation of the levy they had, or were about to, 'hit the wall' in the sense that they were running out of ideas regarding the kinds of structured training that they might be able to offer their employees (DEETYA 1996b: 12).

  However the evaluation report also notes that even in some of the most difficult areas for training – truck driving and cleaning – innovative and sustainable training was developed by some organisations, but the main problem was that 'these innovations seldom went further than the originating enterprise' (DEETYA 1996a: 106).

- "Don't know where to start". A number of (particularly smaller) organisations failed to comply with the levy because they had no idea where to start the process of identifying training needs and accessing appropriate training. It is apparent that these organisations were unable to get the information, advice and assistance they required from the market or their own industries.

- Risk of poaching where the organisation confronted an "external unstructured labour market". The evaluation distinguishes 'internal labour markets', ' structured occupational labour markets' and 'unstructured external labour markets' (DEETYA 1996a: 98-99). Organisations that are poor trainers often recruit in 'unstructured external labour markets' where the incentives to train are lowered because of the fear that employees will leave before the value of the training can be recouped by the organisation.

These distinct, but often related, problems suggest the need for a policy response that is able to provide organisations with more information, more ideas and stronger incentives.

In concluding its evaluation of the TGL the DEETYA report sets out a new agenda (1996a: 122-126) still relevant to today's policy circumstance. The report identified three elements to the agenda:

Beyond the supply side. The evaluation strongly suggests that the levy and its associated policy reforms failed to live up to the promise of addressing the demand for skills as well as the supply of skills. As argued at the start of this section the historic failure of Australian VET policy has been its focus on ensuring appropriate skills in the labour market, or more recently ensuring that skills and training are recognised. However, even if the system was successful at ensuring an adequate supply of skills, this would not necessarily ensure that

employers deployed or utilised workers' skills in such a way that there might be a meaningful contribution to improved productivity, innovation and international competitiveness – in other words a high skills growth path.

The TGL and award restructuring were supposed to address the demand side. The former by compelling under-training employers to a higher level of demand (for training and, hopefully, skills) and the latter by encouraging the development of career pathways and the improved recognition of skills linked to pay and restructured, redesigned jobs. On balance, neither succeeded. The TGL evaluation makes it clear that in the problem areas employers either opted to not undertake sufficient structured training and paid the shortfall, or they opted for short, stand-alone, task-specific courses. While these courses and forms of training contributed to the demand for training, and may have led to workers gaining more skills, there is no guarantee that they represented higher skills capable of delivering greater productivity or innovation. Moreover there was no guarantee that those skills were actually used at work in redesigned and restructured jobs.

Ultimately this has been the failure of award restructuring as well. Creating the opportunity for career paths does not mean that they will necessarily develop for workers. Providing for the recognition of skills and the training to develop new skills does not necessarily mean that employers will be prepared to redesign jobs so that those skills are actually used. This is a classic characteristic of the low skill equilibrium – jobs are premised on low skills and employers do not see the need to compete on the basis of high skills.

Beyond the input focus. It follows that simply focussing on the amount of training undertaken will do little to encourage training that is directed toward high skills. Rather than simply focussing on what training is undertaken and whether it qualifies as 'structured training' and is therefore eligible under a scheme such as the TGL, any new system will need to have the capacity to focus on outcomes and on the way in which skills and training are used and integrated within the work of the organisation.

Beyond the enterprise focus. The experience of the TGL also demonstrates the limitations of a policy initiative which is focussed exclusively at the enterprise level. Those organisations with a strong training culture were able to develop training plans and strategies with a longer term focus that may have been able to make an important contribution to their skills profile. Those without such a culture, without sufficient resources and experience apparently found little assistance from the market or the available institutional sources of advice and assistance.

Moving beyond the enterprise level might also help address the three factors that were earlier identified as contributing to the poor performance of employers in the 'problem areas'. The problem of 'hitting the wall' is in fact the problem of employers exhausting the range of short courses, focussed on specific tasks and skills that may or may not have a great deal of relevance for their business. It was noted earlier that the DEETYA evaluation had found examples of some organisations in problem areas being able to develop meaningful and valuable training programs that should have been applicable to many other organisations. This suggests the need for a cooperative institutional form which is able to pool and share training experiences, ideas and programs. The problem of 'not knowing where to start' also suggests a need for better access to more relevant information and advice. Evidently, this must be provided beyond the enterprise as well.

The problem of training workers in an unstructured external labour market is likely to be the most difficult problem of the three in terms of policy design. Nevertheless, here too, an institutional form capable of pooling and sharing risk so that all employers at least face the same risks and costs will potentially provide the only means of ensuring that all contribute and all benefit.

To say that there is a need for institutional forms beyond the enterprise is to say little of what those forms might look like or where they might be located. A number of factors point to the need for considering institutions which are collaborative, regionally-based and industrially-defined. First, in order to counter problems associated with the disincentives to train caused by poaching, it makes sense to conceive of an institutional form that is consonant with the appropriate labour market. While it must be conceded that labour markets are never securely bounded, they tend to be regionally and industrially (and sometimes occupationally) defined. Second, given the problems identified in the evaluation of the TGL with inadequate information, advice and assistance it is apparent that many organisations need services from institutions that are based on the collaboration of fellow employers, training providers and brokers (whether public or private) and representatives of employees such as unions. These collaborative regional industry bodies are the kinds of institutions that might be able to define training and skill needs for groups of employers and relatively coherent labour markets.

These kinds of institutional forms are not unknown in Australia, although they are more common in the training cultures of at least some other countries. The next section considers the lessons that can be learnt from overseas.

THE AUSTRALIAN PREDICAMENT IN AN INTERNATIONAL CONTEXT

The policy problems associated with the funding and financing of VET in Australia can be stated fairly simply.

First, policy reform must address the issue of government outlays on VET. There is a dramatic need to increase government expenditure on education generally and VET in particular. While all developed economies face problems associated with pressures on government expenditure and widespread electoral aversion to increases in taxation, it is important to note that more countries are increasing public education expenditure as a share of GDP than reducing it (Burke and Long 2000: 46). The first section of this paper has demonstrated that Australia is currently making little progress toward becoming a knowledge economy. Marginson (2001) has argued the case that there is little alternative but for Australian governments to commit to increased education expenditure as a high priority.

Second, there is a need for policy reform to address the level of funding provided by employers for training in general and for training beyond simply task-specific, workplace-focussed training in particular. The first section documented a decline in employer expenditure and commitment to training in Australia throughout the 1990s. The Training Guarantee Levy succeeded in increasing employer expenditure on training, however, with its demise in 1994 most indicators suggest that employer expenditure and effort has fallen away again.

Employers have, of course, a strong incentive to concentrate on training that makes an immediate contribution to the performance of employees at their place of work only. Nevertheless, Burke (2000: 3) and others have noted that employers get significant returns on investment in more generic training, however not all the benefits are captured by the firms that provide the training. Any policy reform must endeavour to ensure that employers are able to capture at least some of the benefits associated with more general training.

While our national predicament is distinctive the nature of these problems are certainly not unique to Australia. The experience of a number of other countries can be instructive in suggesting alternatives and in providing lessons from which Australia can learn.

In attempting to summarise the findings of an international comparison of funding and financing of training across Europe, Heidemann (1996) has noted that the basic pattern is one of entry level vocational training in schools or institutes (and training for the unemployed) being largely funded by the state, on-the-job and recurrent or continuing training of employees being funded by employers, and individually chosen training being funded by individuals themselves. Nevertheless, she notes that there are many variations on this pattern and that mixed systems of financing are common. In particular she notes that on-the-job training is not always funded by individual employers acting in isolation – public subsidies are not uncommon, collective agreements often impact on recurrent training, and co-financing of training – where both employers and employees contribute – is also reasonably common.

Many countries subsidise the training expenses incurred by employers, typically through the tax system. In some countries however extra incentives are provided by allowing tax deductions for companies of greater than 100% of expenditure on training. In the Philippines, for example, firms can claim 150% of the cost of training against their tax bill provided the extra 50% does not amount to more than 10% of payroll (Dougherty and Tan 1997: 47).

One of the most common methods of stimulating employer spending on training, particularly in developed countries, involves some variety of payroll levy not unlike the Training Guarantee Levy. In the 1970s Taiwan imposed a levy of 1.5% on all employers employing 40 or more workers in selected key industries. The scheme allowed employers to claim back up to 80% of their contribution to cover the costs of approved training. Although the scheme was abandoned only a few years after its introduction, it was successful in dramatically increasing the number of trainees, and was legislated again (albeit in a different form) in 1983.

A payroll tax was also introduced in Singapore in 1979. Unlike other schemes the Singaporean approach sought to promote the restructuring of the economy as well as the promotion of recurrent training for employees. The levy is increased to 4% for every low wage employee employed by the enterprise as a means of encouraging firms to pursue a high wage, skill intensive strategy. The levy funds are paid into a Skills Development Fund which then provides training grants to employers with the intention that the money be used to upgrade the skills of low-paid workers. Despite the ingenuity of the scheme its results have been uneven. While a very high number of workers have been trained under the system it has failed to result in the concentration of training on low paid workers; most training has been directed toward higher skilled, higher paid workers (Dougherty and Tan 1997: 55).

Perhaps the most celebrated and successful training system to utilise a payroll levy is the French model. The French training levy system is based on a compulsory levy of 1.5% of payroll on all firms with 10 or more workers. Individual firms and employees can then claim against the funds into which the levies are paid for various forms and varieties of training.

The 1.5% quantum is broken down into specific funds for different purposes. The details of the operation of the funds are described in Box 1. The system has a number of particular features that are worth emphasising.

Box 1

THE FRENCH TRAINING LEVY SYSTEM

THE LEGAL OBLIGATIONS

Firms with 10 or more workers must contribute 1.5 per cent of payroll to training, broken down as:

0.9 per cent to the firm's training plans for any workers
0.4 per cent to alternating work/school training for new entrants
0.2 per cent to individual training (the congé individuel de formation or CIF programme).

Firms with <10 workers must contribute 0.15 per cent of payroll to training.

HOW FIRMS MEET THEIR LEGAL OBLIGATIONS

0.9 per cent: firm's training plans

Direct provision of training for their workers: this is either supplied in-house or may be contracted from a training organization, but there are rules about what qualifies as training and which organizations qualify as providers. Providers include the employers' training associations or Associations de Formation (ASFOs).

Paying into a mutual fund or Fonds d'Assurance Formation (FAFs): these are jointly administered employer-union organizations.

0.4 per cent: alternating training

Firms pay this contribution into Organismes Mutualisateurs de l'Alternance (OMAs) which deal with youth and labour market entry training.

0.2 per cent: individual training leave

Firms pay this contribution into Organismes Paritaires Agréés au titre de Congé Individuel de Formation (OPACIFs), which deal with worker-initiated demands for training.

Additionally, a small percentage of training funds can go to designated information research organizations. A last resort is to give the funds to the Treasury; this has fallen into abeyance.

THE ORGANIZATION AND FUNCTIONING OF THE MUTUAL FUNDS

- Since 1993 the FAFs and OMAs have been formally merged (although the two funds remain separate) into collecting organizations or Organismes Paritaires Collecteurs Agréés (OPCAs).
- These are organized both at the industry level (40 sectors) and at a regional interprofessional level (20 groups), thus aiming to cover both sector-specific skill needs and the supply of general professional skills.
- The OPCAs are jointly managed by worker representatives and employees.
- They decide priorities and organize training for their sector or profession.
- They receive revenue, information, and management advice from government education and training agencies.

WHAT FIRMS AND WORKERS GAIN FROM THE MUTUAL FUNDS

- The OPCAs can provide or purchase training for workers from the member firms.
- They can reimburse in-house training costs incurred by their member firms.
- Firms can apply for special training grants, to meet unusually heavy training programmes.
- Individual workers apply to OPACIFs for funding for individually organized training spells including course fees and salary. (These funds are also supplemented from government revenues.)

Source: Greenhalgh, C. (1999). 'Adult vocational training and government policy in France and Britain.' Oxford Review of Economic Policy, Vol.15 (1), pp. 97-113.

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First, unlike Australia's TGL experiment the levy is 'external' rather than 'internal' in the sense that employers need to make a claim against the particular funds for specific purposes. Firms claim against the Training Plan fund for either in-house training or externally provided training for recurrent training for their own workers and against the Alternating Training fund for entry level training.

Second, there are rules concerning what forms of training can qualify as eligible training and what providers are qualified to provide the training. In order to comply firms must submit an on-the-job training plan which then provides the basis for their subsequent claims against the funds (Heidemann 1996: 10-11). Employers' training associations, ASFOs, are generally designated as training providers.

Third, there is a designated fund for individual workers to take training leave to undertake courses of training of their own choosing. Applications for training leave are made to the appropriate funding body, one of the OPACIFs. The fund can cover both training fees and salary costs and is supplemented out of general state coffers.

Fourth, the funds are administered by joint employer-union organisations that are organised on both regional and industrial lines. These organisations (OPCAs) take an active role in the determination of appropriate training and skill development priorities for their respective industries and regions. They also gather information on skills and labour market trends from other agencies.

Fifth, the system also allows for employers to seek special grants from the funds for specific training programs involving large numbers of workers.

Since its establishment in the early 1970s the system has been very successful in encouraging a significant increase in employer training expenditure. Employer expenditure on training has increased from an average of 1.35% of payroll in 1972, to 2.9% by the late 1980s to 3.2% by the early 1990s (Greenhalgh 1999: 100; Heidemann 1996: 11).

In a direct comparison of the French approach and the highly deregulated British approach, Greenhalgh (1999), notes that while the French system provides training to a slightly smaller proportion of workers, it succeeds in delivering training which is, on average, 30% longer. Greenhalgh also argues that the French system has succeeded in providing a more equitable distribution of the financing burden between individual employers and has partially eliminated the problem of employers poaching skilled workers from other firms. French workers receive on average more recurrent training than workers in any other European country (Greenhalgh 1999: 111).

The success of the French system is not simply a result of the payroll levy. The reform has been developed and modified over the past 30 years alongside an increasing government commitment to education and training expenditure. Further incentives, particularly designed to encourage training by small and medium sized enterprises, have also been introduced. For example, in the mid 1980s the EDDF directive instituted a system whereby firms or groups of firms could develop a contract with the government that involved training plans to develop the skills of their staff in return for subsidies of approximately 30 to 40%.

The apparent success of the French model has led to its dissemination in other parts of Europe. Spain has instituted a vocational training tax with a small employee contribution alongside the employer contribution of 0.6% of payroll. The models adopted in Greece and Italy have also been profoundly influenced by the French success (Heidemann 1996: 12-14).

One notable feature of the French system has been the inclusion of an individual training leave program funded out of the employer levy and supplemented by government revenues. This allows individual employees to undertake training and study that may or may not be directly related to their current employment. It also means that where employers are focussed very heavily on providing firm-specific, task-specific training, individual workers still have some opportunity to develop different vocational or professional skills without having to lose their job or always study part-time, out of working hours.

Other countries have tried to address this issue differently, including the introduction of individual learning accounts. The UK introduced a system of Individual Learning Accounts in 1998, however these appear to be too modest to be likely to have much impact on the ability of employees to undertake significant training or education. Under the scheme the Government commits to paying £150 into the account after an individual deposits £25 (Burke 2000: 13).

Sweden is introducing a more serious system of individual learning accounts this year (Lönnberg 2000). Under the new Swedish system individuals can bank up to 37,700 Swedish Kronor (about $AUD7,000) per year into their account and claim the entire contribution as an income tax deduction. Employers can also contribute to individual workers' funds and claim 10% of the contribution as a deduction from their payroll tax. When the employee draws on their fund for any training program or education which contributes to their development of competencies, they receive a "competence grant premium", effectively a tax deduction. The funds can be used to cover living expenses, course fees and materials. The program is to be launched with grants (of about $AUD500) to the funds of all workers on 'low' wages.

The Danish system of funding and managing recurrent training involves a combination of strong state support for the provision of training through publicly funded technical schools, trade institutes and labour market training centres (AMUs), jointly administered funds for financing the wage costs of employees on training and a Leave Scheme. The jointly administered fund that covers the wage and travel costs associated with having workers attend external training (the AER) is jointly funded by the state and employer contributions. Since the mid 1990s there has been a further move toward financing being provided by employers and individual employees. Employment policy funds are now financed by the state with very significant contributions from employees (starting out at 5% of gross wages in 1995) and employers (starting out at 0.19% of payroll) (Heidemann 1996: 15). Together these funds seem to have ensured that Denmark continues to be a training society where ongoing training is seen as an integral part of the country's lifelong learning policy (See also Olesen 1997).

Denmark's system of training leave is supplemented by programs for parental leave and sabbaticals. (OECD 1999: 7). While on leave Danish workers receive a wage replacement grant equivalent to the unemployment benefit and, in their absence from their job, their position must be filled by an unemployed person who has been trained to take on the job. The leave system appears to be very popular with participants. According to a survey of employees reported by the

OECD, nearly 90% of participants said they would take the leave again, despite the fact that nearly half reported that they suffered significant financial loss while taking the leave (OECD 1999: 10).

This brief survey of training funding and financing practices in various countries suggests that there is no one model for the effective funding of VET. While the particular forces operating in different countries vary enormously, one of the obvious features of the most generous and successful schemes is that they are based on a strong shared belief amongst the social partners and across the society in the inherent value and necessity of continuous training of workers. In countries such as France and Denmark the maintenance of comprehensive systems based on collaborative and cooperative institutions and mandatory levies has meant that employers have become accustomed to making significant contributions to training and skills development.

CONCLUSION

Australian industry faces a significant challenge in developing a high skill and knowledge based economy of the future. Australian employers have been poor performers in creating high skilled jobs. While there are some differences between industries their contribution to training and education funding has been falling. The training provided to non-standard workers is limited at best and at worst non-existent. What is more disturbing, most net employment growth these days is in non-standard work.

Employer behaviour, however, should not be understood as resulting from personal deficiencies or inadequacies. Rather, what prevails is more the outcome of a particular configuration of social and especially economic forces – what could be described as a training regime. Given this the challenge is not just to raise the levels of funding provided by employers for training. The challenge is change the regime that underpins current arrangements.

Obviously Australia must do better than simply attempt to revive the old TGL. Nevertheless the levy *did* succeed in stimulating employer expenditure, it *did* result in more genuine training and it *did* encourage managers to take training and skills development more seriously. Australia again confronts the challenges of encouraging employer expenditure on training, encouraging high quality, high skills training and encouraging employers to think about the deployment and full use of employee skills as the main path to future productivity improvements. As has been noted throughout this report, simply increasing the amount of training undertaken will not, of itself, ensure that those resulting skills are actually used in Australian workplaces in higher skill, more rewarding and more productive jobs.

Finding appropriate policy mechanisms to encourage employers (and employees) to redesign jobs and work organisation around principles of utilising existing and newly acquired skills and competencies is not easy. Too often in the past employers have taken the low cost, low skills path characteristic of low skill ecosystems – productivity and profit is achieved through work intensification and lower pay rates, which are used as the prime means of trying to capture lower labour costs. Stronger incentives and inducements are needed to promote high skill ecosystems and to break the mould of the existing training regime which propels too many employers toward low skill pathways. A skills levy, or similar mandatory system of guaranteeing a minimum employer contribution to training in their industry, can contribute to the generation of a new

training regime and a high skills dynamic. The main reason for this is a simple and enduring free market idea – 'you value what you pay for'. As the survey evidence gathered in the evaluation of the early 1990s Australian levy demonstrated and as the examples of the French and Danish training regimes emphasise, where employers invest in training they are more likely to value the skills that result and more likely to ensure that those skills are used and deployed to productive ends. The Australian evidence reviewed above showed that, when in operation, the levy had the effect of improving the attitude of management to training, improving firms' methods of recording training expenditure and evaluating training, and enabling firms to take a more strategic approach to training. It follows that managers who come to appreciate the costs associated with training will be more likely to ensure the productive deployment of the resulting skills in re-designed jobs. It is notable that two of the most developed and successful training regimes in the world – Denmark and France – both have in place training funds financed at least in part by industry levies.

The need for Australian policy to move 'beyond the supply side' – beyond just worrying about the provision of training and the production of trained workers – and on to a consideration of (employers') demand for skills and trained employees was explicitly recognised in the evaluation of the TGL following its demise. Similarly that evaluation also called for future policy to be concerned with training outcomes as well as inputs and to move beyond an 'enterprise orientation'. This does not mean that policy can afford to ignore quality of training provision and skill supply, nor that the enterprise and the development of workplace relevant skills is unimportant. Rather it means that the deployment and utilisation of skills by employers in workplaces must become a key focus of future policy. In part, the logic of 'valuing what you pay for' can work to increase the likelihood of employers taking skill utilisation and job design more seriously where a levy is in place. However there is also a need for the promotion of collaborative arrangements between employers, training providers, workers and unions within regionally and industrially defined labour markets. Collaborative institutions with strong employer and other stakeholder representation can provide a strategic perspective on the inter-related issues of skill needs, training provision, quality, skill deployment, job design and work organisation.

Employers have a crucial role in human capital formation. Given that a large proportion of the benefits of training and education accrue to individual employees, it is sometimes argued that individual workers should make the major contribution to any increase in their training. The limits of increasing funds from this source have been noted by Burke (2000). Firstly, he says, government could increase the fees that are levied on students and trainees. Students and workers currently enrolled in TAFE courses do not generally pay fees beyond some modest course costs; however the levying of fees would be likely to have a detrimental effect on access and equity in the system. Secondly, Burke notes that fees could be accompanied by a system of loans. However, he argues that this would also be likely to have a negative effect on the amount of training undertaken as well as an adverse effect on access and equity. Lastly, Burke considers the option of introducing a HECS style system where trainees incurred a training debt, repayable when their income reached a certain level and counsels against this option on the basis that it would be likely to have an adverse effect on the preparedness of the less wealthy to undertake training and incur a debt. Under the reforms of the 1990s the proportion of employees supporting their own training has been increasing (See also: DEETYA 1996a: 41). It appears that current policy settings have already succeeded in increasing employee contributions to their own training. In addition it must be recognised

that individuals already make a substantial sacrifice when undertaking external training or education in terms of lost discretionary time. Adding yet another cost in terms of money as well as time is likely to make any increase in training impossible for many workers.

Changing any regime or configuration of practices and institutional arrangements is never easy. The research in this paper has highlighted the importance of a two stage approach. First, the underlying logic of current arrangements needs to be broken. Second, new arrangements need to be established which address the needs of individuals and workplaces. Most importantly new arrangements also need to address networks of firms, workers and training providers as embodied in skill eco-systems. Breaking down the regime that currently prevails would be best achieved with the introduction of a new, uniform training levy and individual learning accounts. Establishing a better regime will require the formation of new institutional arrangements which provide incentives for individuals, firms and clusters of both to upgrade and make use of higher order skills.

Growth in the number of skilled jobs is important for future prosperity and working life. Such jobs will only come about if adequate investment in capital goods and equipment is made in growing sectors of the economy. Investment of this nature will also need to be matched by investments in skills and ensuring they are actually used in the workplace. A major weakness in the funding base for skills in contemporary Australia arises from the inadequate contribution to the training effort made by many employers. Many employers take skills for granted. It is vital that we change the level of funding for skills provided by them. It is even more important that we change the situation that generates the current situation. Valuable lessons from the experiences of the Training Guarantee Levy offer important leads on how an optimal system could be designed. At the turn of last century Australia pioneered new ways of managing relations at work. It is time that we regained that spirit of institutional innovation at the beginning of this one. Enhancing employers' contribution to skill formation along the lines identified in this paper would mark a major step in rekindling the spirit of progressive social innovation that prevailed over a century ago.

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